

Agenda Item 5: Capital Grants

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IPSASB Consultative Advisory Group
Meeting

Toronto, Canada

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Project update: Revenue projects context: Categorization of transactions

Current classification	Non-Exchange	Exchange	
CP Revenue	Category A	Category B*	Category C
Characteristics	No performance obligations or stipulations	Enforceable agreements, with performance obligations or stipulations to use or consume resources in a particular way; and/or other agreements requiring resources to be used over a specified period of time	Enforceable agreements, with performance obligations to transfer goods or services to customers on commercial terms
Examples	Taxes, transfers	Funding to deliver a specified number of vaccinations to the public	Sale of goods or services on commercial terms

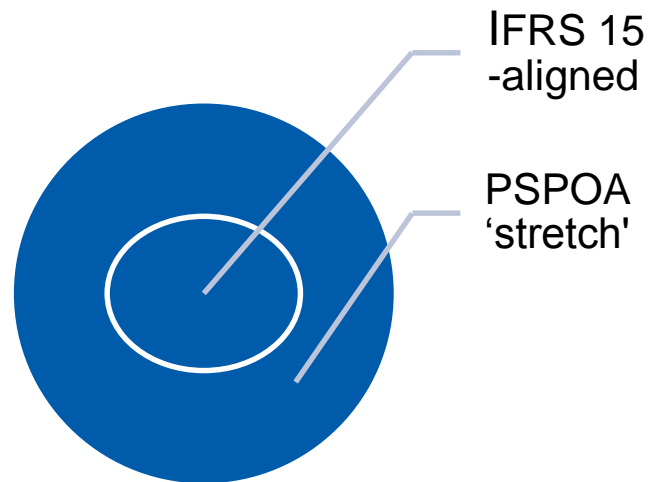
* Whether Category B transactions are considered to be exchange or non-exchange can differ depending on how the characteristics of the transaction are interpreted.

Project update: Revenue projects: Way forward

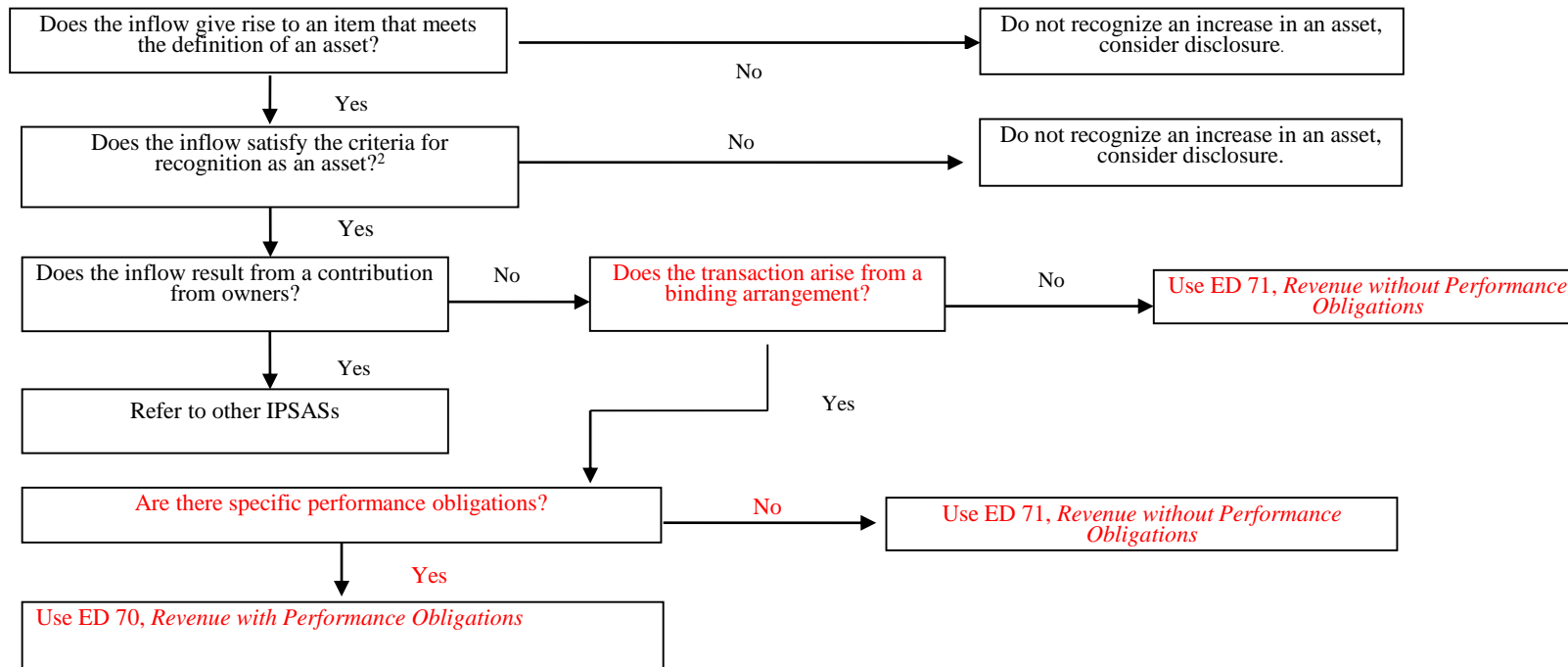
- Board decisions:
 - Replace IPSASs 9 & 11 with IFRS 15-based standard (ED 70)
 - Retain IPSAS 23 – update to address specific application issues (ED 71)
 - Services in kind – maintain current approach
 - Develop Public Sector Performance Obligation Approach (PSPOA) for Category B
 - PSPOA guidance in IFRS 15-based standard
- PSPOA ‘filter mechanism’:
 - Step 1: Binding arrangement?
 - Step 2: Performance obligation? Sufficiently specific?
 - Enforceability key: Revenue of recipient when no enforcement mechanism
- Areas for further discussion:
 - Capital grants
 - ‘Grants, contributions and other transfers’ – guidance / examples location(s)

Project update: IFRS 15-based IPSAS: *‘Revenue with Performance Obligations’?*

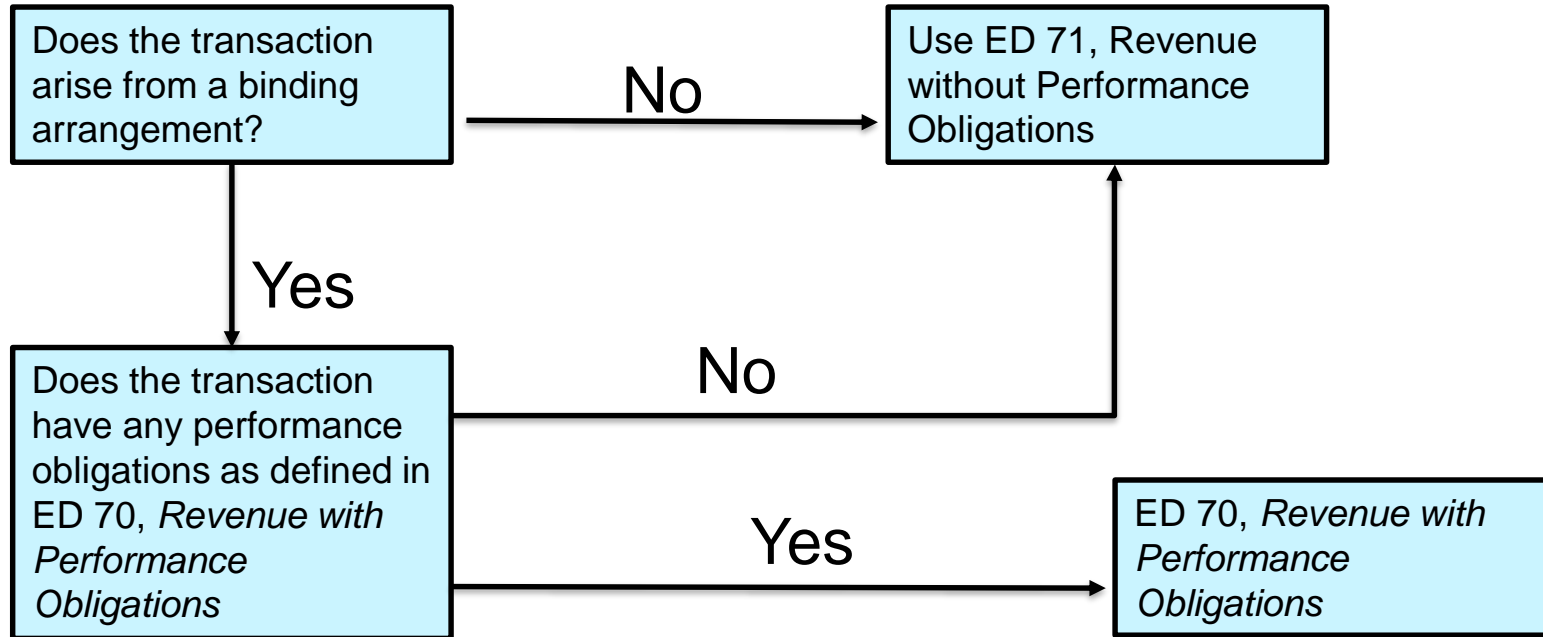
- IFRS 15-aligned core text
- Definitions ‘stretched’ for PSPOA, but clear link to IFRS 15 definitions
- PSPOA Application Guidance (mainly on Steps 1 and 2)
- IFRS 15 examples reviewed for public sector
- Additional PSPOA examples



Project update: ED 71 Revised flowchart? - March IPSASB discussion

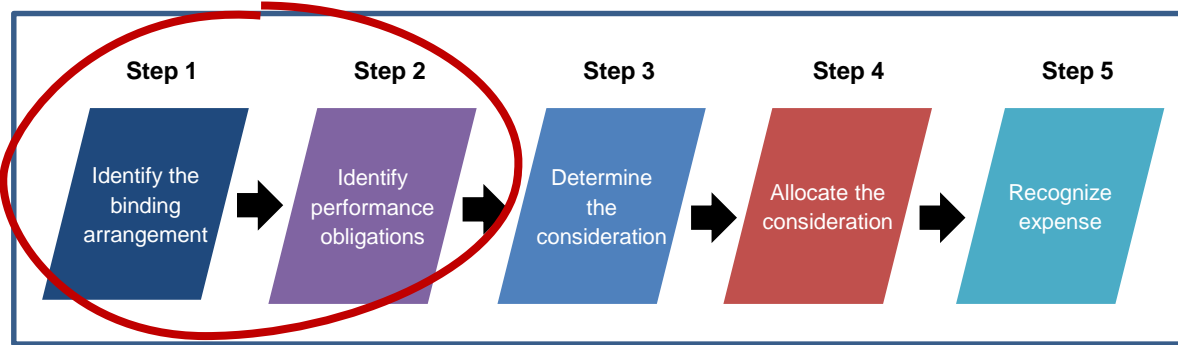


Project update: Flowchart – which standard to use?



Project update: Grants and Transfers: Expense

- PSPOA (including recognition of asset) to be applied to transactions meeting Steps 1 & 2:



- 'Reverse' IPSAS 23 approach where outside PSPOA
- Key areas under debate in relation to Steps 1 & 2:
 - When should a liability be recognized?
 - Asset recognition? - enforceability?

Capital Grants – background and issue

Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*, released in August 2017

- 79% of respondents noted a need for guidance on accounting for capital grants from the recipient's perspective

Issue

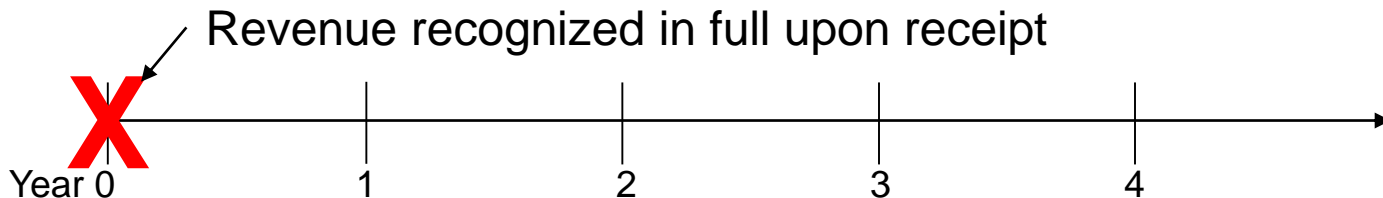
- Typical capital grant transactions do not contain performance obligations, so ED 70, *Revenue with Performance Obligations*, would not apply

Capital Grants – accounting options

- Potential accounting options are:
 1. Immediate recognition
 2. Recognition over construction period
 3. Recognition in accordance with obligations in the arrangement

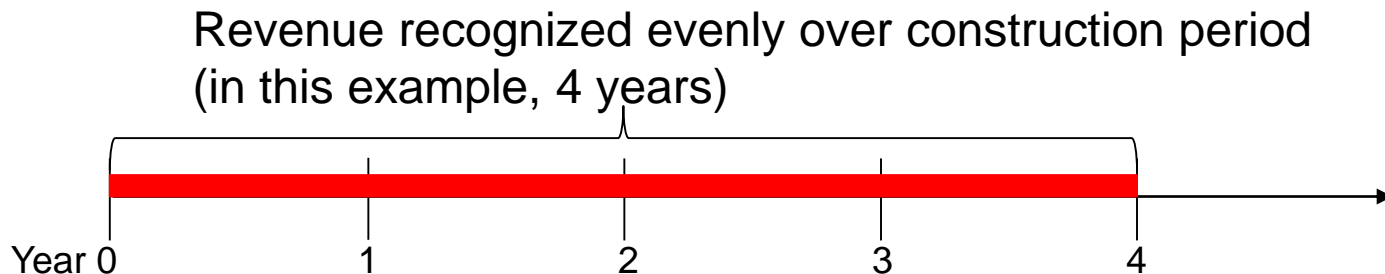
Option 1 – immediate recognition

- Based on reasoning that the potential return of funds is only a contingent liability rather than a present obligation giving rise to a recognized liability



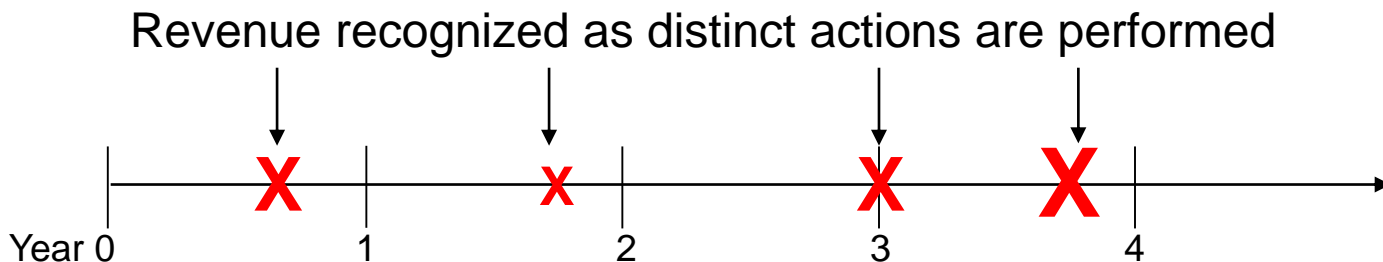
Option 2 – recognition over the construction period

- Based on reasoning that requirement to acquire or construct an asset gives rise to a present obligation, resulting in a liability



Option 3 – recognition in accordance with obligations in the binding arrangement

- Based on reasoning that specific actions required by the grant each result in a separate obligation



Reference example 1

- Illustration of option 1:

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	CU 10M			
Statement of Financial Position (Y/E)				
Cash*	CU 10M			
Grant liability				

* Subsequent cash balance will depend on how and when funds are used

Reference example 2A

- Illustration of option 2:

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	CU 2.5M	CU 2.5M	CU 2.5M	CU 2.5M
Statement of Financial Position (Y/E)				
Cash*	CU 10M			
Grant liability	CU 7.5M	CU 5.0M	CU 2.5M	

* Subsequent cash balance will depend on how and when funds are used

Reference example 2B

- Illustration of option 3:

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	CU 1.5M	CU 1.5M	CU 3.0M	CU 4.0M
Statement of Financial Position (Y/E)				
Cash*	CU 10M			
Grant liability	CU 8.5M	CU 7.0M	CU 4.0M	

* Subsequent cash balance will depend on how and when funds are used

Reference example 3

- Illustration of option 2 plus operating grant component

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	CU 2.5M	CU 2.5M	CU 2.5M	CU 2.5M
Statement of Financial Position (Y/E)				
Cash*	CU 10M			
Grant liability	CU 7.5M	CU 5.0M	CU 2.5M	

- Provision of vaccinations to be accounted for separately using ED 70 starting in year 5

* Subsequent cash balance will depend on how and when funds are used

Questions to CAG members

1. Which of the accounting options do you think better serves the public interest, and why?
2. What additional information, such as examples, do you think should be developed to better illustrate the above options?



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